

Budget for unsettled times introduces significant pensions tax change



What you **need to know**

- A significant focus of the 2020 Budget was short term action aimed at bringing security to an economy facing unsettled times due to the Coronavirus disease outbreak.
- It also introduced a wave of measures aimed at increasing investment to secure future UK growth.
- Within that there was one major change for pensions – substantially increasing the threshold at which the maximum amount of tax relieved pension saving that can be made each year (the ‘annual allowance’) starts to reduce (known as ‘tapering’).
- This addresses the so-called NHS ‘tax trap’ where NHS staff inadvertently triggered tax charges by working overtime. The announced change applies to all pension savers, not just NHS staff, and will apply from the 2020/21 tax year.
- The Budget also confirmed that the lifetime allowance for pensions will increase in line with CPI for 2020/21, rising to £1,073,100.

Changes to annual allowance tapering

1. The 2020 Budget increased income thresholds for calculating the tapered annual allowance for tax relieved pension savings. The changes in limits are set out in the table.
2. Most high earners are expected to be better off as a result of the change. Some high earners will be worse off due to the reduced minimum tapered annual allowance. The taper will reduce as before so only those with net income plus pension accrual above £300,000 in a tax year will have a tapered annual allowance below £10,000. We expect the new lower end (£4,000) will be reached where net income plus pension accrual is above £312,000.

Limit type	Current	New
Threshold income for testing¹	£110,000	£200,000
Adjusted income² for taper start	£150,000	£240,000
Adjusted income² – level at which minimum annual allowance is reached	£210,000	£312,000
Minimum tapered Annual Allowance	£10,000	£4,000

Source: HMRC

Notes: 1. broadly net income before tax (excluding pension contributions)
2. broadly net income plus pension accrual/contributions

For further information, please get in touch with Wayne Segers or William Fitchew or speak to your usual XPS Pensions contact.

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